

EXHIBIT F

ALCATEL LUCENT (ALU)

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20-F

ALCATEL LUCENT FORM 20-F
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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

- ☐ REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2006
OR
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR
- ☐ SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 1-11130

Alcatel Lucent

(Exact name of Registrant as specified in its charter)

N/A

(Translation of Registrant's name into English)

Republic of France

(Jurisdiction of incorporation or organization)

54, rue La Boétie**75008 Paris, France**

(Address of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:*

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing one ordinary share, nominal value €2 per share*	New York Stock Exchange

* Listed, not for trading or quotation purposes, but only in connection with the registration of the American Depositary Shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

2,309,679,141 ordinary shares, nominal value €2 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934.

Yes ☐ No ☒

Note — checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those sections.

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934

during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing

requirements for the past 90 days.

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer

and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐

Indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ☐ Item 18 ☒

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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PART 1

Item 1. Identity of Directors, Senior Management and Advisers

Not applicable.

Item 2. Offer Statistics and Expected Timetable

Not applicable.

Item 3. Key Information

Selected financial data

Selected Consolidated Financial Data

In accordance with a regulation adopted by the European Union, or EU, in July 2002, all companies incorporated under the laws of one of the member states of the EU and whose securities are publicly traded within the EU are required to prepare their consolidated financial statements for the fiscal year starting on or after January 1, 2005 on the basis of accounting standards issued by the International Accounting Standards Board. Therefore, in accordance with these requirements, we converted from using French generally accepted accounting principles ("French GAAP") to International Financial Reporting Standards ("IFRS"), as adopted by the EU. As used in this Form 20-F, unless the context otherwise indicates, the terms "we," "us," "our" or similar expressions, as well as references to "Alcatel-Lucent" or the "Group," mean Alcatel-Lucent and its consolidated subsidiaries. In addition, unless the context otherwise indicates, the term "historical Alcatel" means Alcatel and its consolidated subsidiaries prior to the business combination with Lucent Technologies Inc. ("Lucent") described below.

As a first time adopter of IFRS at January 1, 2004, we followed the specific requirements described in IFRS 1, "First Time Adoption of IFRS." The options selected for the purpose of the transition to IFRS are described in the notes to our 2006 consolidated financial statements included elsewhere in this annual report.

In accordance with General Instruction G.(c) to Form 20-F, the table below represents our selected consolidated financial data for the three-year period ended December 31, 2006 in IFRS, which have been derived from our audited consolidated financial statements and for the five-year period ended December 31, 2006 in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). The selected consolidated financial data are qualified by reference to, and should be read in conjunction with, our consolidated financial statements and the notes to those statements and Item 5 — "Operating and Financial Review and Prospects" appearing elsewhere in this annual report.

IFRS differs from U.S. GAAP in certain significant respects. For a discussion of significant differences between U.S. GAAP and IFRS as they relate to our consolidated financial statements and a reconciliation to U.S. GAAP of net income and shareholders' equity for 2006, 2005 and 2004, please refer to Notes 38 through 41 to our consolidated financial statements included elsewhere herein.

Effects of Lucent and Thales transactions on our financial results

On April 2, 2006, historical Alcatel and Lucent entered into a definitive merger agreement. Completion of the merger occurred on November 30, 2006 and Lucent became a wholly owned subsidiary of Alcatel. In addition, Alcatel, the parent company, changed its name to Alcatel Lucent. On April 5, 2006, we announced that the Board of Directors of Thales had approved in principle the acquisition of our satellite subsidiaries, railway signaling business and integration and services activities for mission-critical systems not dedicated to operators or suppliers of telecommunications services. On December 1, 2006, we signed a definitive agreement relating to this transaction with Thales.

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As a result of the Lucent transaction, our 2006 financial results include (i) 11 months of results of only historical Alcatel and (ii) one month of results of the combined company. As a result of the Thales transaction, the businesses to be transferred to Thales are presented in the "Income (loss) from discontinued operations" line item in our IFRS 2006 consolidated income statement. In addition, in accordance with IFRS requirements, our historical consolidated income statements for the years ended December 31, 2005 and 2004 have been re-presented to reflect the businesses to be transferred to Thales in "Income (loss) from discontinued operations." Therefore, the differences in our operating results in 2006 as compared to 2005 are partially due to the transactions with Lucent and Thales.

Results of Nortel's UMTS radio access business that we acquired in 2006 are not included in the 2006 income statement data, as the transaction was completed on December 31, 2006.

(in millions, except per share data)	For the year ended December 31,					
	2006 ⁽¹⁾	2006	2005	2004	2003	2002
Income Statement Data in accordance with IFRS						
Revenues	\$16,209	€12,282	€11,219	€10,263		
Income (loss) from operating activities before restructuring costs, impairment of intangible assets and gain/(loss) on disposal of consolidated entities	916	694	1,021	1,003		
Restructuring costs	(933)	(707)	(79)	(313)		
Income (loss) from operating activities	(183)	(139)	1,071	602		
Income (loss) from continuing operations	(383)	(290)	861	431		
Net income (loss)	(173)	(131)	971	645		
Net income (loss) attributable to equity holders of the parent	(232)	(176)	930	576		
Earnings per Ordinary Share						
Net income (loss) (before discontinued operations) attributable to the equity holders of the parent						
— Basic ⁽²⁾	(0.30)	(0.23)	0.60	0.27		
— Diluted ⁽³⁾	(0.30)	(0.23)	0.60	0.26		
Dividends per ordinary share ⁽⁴⁾	0.21	0.16	0.16	—		
Dividend per ADS ⁽⁴⁾	0.21	0.16	0.16	—		
Amounts in accordance with U.S. GAAP⁽⁵⁾						
Net sales	\$18,978	€14,381	€13,129	€12,663	€12,528	€16,549
Income (loss) from operations	(636)	(482)	940	550	(1,349)	(8,300)
Net income (loss)	(780)	(590)	763	550	(1,721)	(11,511)
Basic earnings per ordinary share ⁽²⁾⁽⁶⁾						
Income (loss) before extraordinary items	(0.54)	(0.41)	0.56	0.45	(1.46)	(7.29)
Net income (loss)	(0.54)	(0.41)	0.56	0.45	(1.42)	(9.67)
Diluted earnings per ordinary share ⁽³⁾⁽⁶⁾						
Income (loss) before extraordinary items	(0.54)	(0.41)	0.55	0.43	(1.46)	(7.29)
Net income (loss)	(0.54)	(0.41)	0.55	0.42	(1.42)	(9.67)
Basic earnings per ADS ⁽⁶⁾						
Income (loss) before extraordinary items	(0.54)	(0.41)	0.56	0.45	(1.46)	(7.29)
Net income (loss)	(0.54)	(0.41)	0.56	0.45	(1.42)	(9.67)
Diluted earnings per ADS ⁽⁶⁾						
Income (loss) before extraordinary items	(0.54)	0.41	0.55	0.43	(1.46)	(7.29)
Net income (loss)	(0.54)	(0.41)	0.55	0.42	(1.42)	(9.67)

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(In millions)	At December 31,			
	2006 ⁽¹⁾	2006	2005	2004
Balance Sheet Data in accordance with IFRS				
Total assets				
Marketable securities and cash and cash equivalents	\$54,599	€41,372	€21,115	€20,629
Bonds, notes issued and other debt — Long-term part	8,830	6,691	5,150	5,163
Current portion of long-term debt	6,662	5,048	2,752	3,491
Capital stock	1,532	1,161	1,046	1,115
Shareholders' equity attributable to the equity holders of the parent after appropriation ⁽⁷⁾	6,096	4,619	2,857	2,852
Minority interests	19,958	15,123	6,008	4,913
	657	498	477	373

(In millions)	At December 31,					
	2006 ⁽¹⁾	2006	2005	2004	2003	2002
Amounts in accordance with U.S. GAAP⁽⁵⁾						
Shareholders' equity before appropriation	\$25,450	€19,284	€8,719	€6,864	€6,414	€8,184
Total assets ⁽⁶⁾	60,235	45,643	24,184	23,888	25,998	30,435
Long-term debt	7,770	5,888	2,913	3,628	4,713	5,070

(1) Translated solely for convenience into dollars at the noon buying rate of €1.00 = U.S.\$1.3197 on December 31, 2006.

(2) Based on the weighted average number of shares issued after deduction of the weighted average number of shares owned by consolidated subsidiaries at December 31, without adjustment for any share equivalent:
 Ordinary shares: 1,449,000,656 in 2006 for IFRS earnings per share and 1,449,000,656 for U.S. GAAP earnings per share; 1,367,994,653 in 2005 for IFRS earnings per share and 1,367,994,653 for U.S. GAAP earnings per share;
 1,349,528,158 in 2004 for IFRS earnings per share (including 120,780,519 shares related to bonds mandatorily redeemable for ordinary shares) and 1,228,745,770 for U.S. GAAP earnings per share; 1,211,579,968 in 2003 and
 1,190,067,515 in 2002 for U.S. GAAP earnings per share.

(3) Diluted earnings per share takes into account share equivalents having a dilutive effect after deduction of the weighted average number of share equivalents owned by our subsidiaries. Net income is adjusted for after-tax interest expense related to our convertible bonds. The dilutive effect of stock option plans is calculated using the treasury stock method. The number of shares taken into account is as follows:
 — IFRS: ordinary shares: 1,449,000,656 in 2006, 1,376,576,909 in 2005 and 1,362,377,441 in 2004.
 — U.S. GAAP: ordinary shares: 1,449,000,656 in 2006, 1,377,183,582 in 2005; 1,363,661,187 in 2004; 1,211,579,968 in 2003 and 1,190,067,515 in 2002.

(4) Under French company law, payment of annual dividends must be made within nine months following the end of the fiscal year to which they relate. Our board of directors has announced that it will propose at the annual shareholders' meeting to be held on June 1, 2007 to pay a dividend of €0.16 per ordinary share and ADS for 2006.

(5) For information concerning the differences between IFRS and U.S. GAAP for years 2006, 2005 and 2004, see Notes 38 to 41 to our consolidated financial statements included elsewhere herein. For information concerning the differences between French GAAP and U.S. GAAP for 2003 and 2002, see the notes to our prior consolidated financial statements filed as part of our Annual Reports on Form 20-F for the year ended December 31, 2004.

(6) All ordinary share and per ordinary share data and all ADS and per ADS data for the year ended December 31, 2002 have been adjusted to reflect the conversion on April 17, 2003 of all of our outstanding Class O shares and Class O ADSs into our ordinary shares and ADSs, as applicable, on a one-to-one basis. We no longer have Class O shares trading on the Euronext Paris or Class O ADSs trading on the NASDAQ National Market.

(7) Amounts presented are net of dividends distributed. Shareholders' equity attributable to holders of the parent before appropriation are €15,493 million, €6,227 million and 4,913 million as of December 31, 2006, 2005 and 2004 respectively and dividends proposed or distributed amounted to €370 million, €219 million and €0 million as of December 31, 2006, 2005 and 2004 respectively.

(8) Advance payments received from customers are not deducted from the amount of total assets. See Note 38(k) to our consolidated financial statements included elsewhere herein.

Exchange Rate Information

The table below shows the average noon buying rate of euro from 2002 to 2006. As used in this document, the term "noon buying rate" refers to the rate of exchange for the euro, expressed in U.S. dollars per euro, as certified by the Federal Reserve Bank of New York for customs purposes.

Year	Average rate ⁽¹⁾
2006	\$1.2728
2005	\$1.2400
2004	\$1.2478
2003	1.1411
2002	1.0531

(1) The average of the noon buying rate for euro on the last business day of each month during the year.

The table below shows the high and low noon buying rates expressed in U.S. dollars per euro for the previous six months.

Period	High	Low
March 2007	\$1.3374	\$1.3094
February 2007	\$1.3246	\$1.2933
January 2007	1.3286	1.2904
December 2006	1.3327	1.3073
November 2006	1.3261	1.2705
October 2006	1.2773	1.2502

On April 4, 2007, the noon buying rate was €1.00 = \$1.3364.

Risk factors

Risks Relating to our Operations

Our business, financial condition or results of operations could suffer material adverse effects due to any of the following risks. We have described the specific risks that we consider material to our business but the risks described below are not the only ones we face. We do not discuss risks that would generally be equally applicable to companies in other industries, due to the general state of the economy or the markets, or other factors. Additional risks not known to us or that we now consider immaterial may also impair our business operations.

We may fail to realize the anticipated cost savings, revenue enhancements and other benefits expected from the merger.

As part of the integration of historical Alcatel and Lucent following the merger, we are executing plans to consolidate support functions, optimize our supply chain and procurement structure, leverage our research and development and services across a larger base, and reduce our worldwide workforce by approximately 12,500 positions. These actions are expected to result in significant cost savings, opportunities for revenue synergies and other synergistic benefits.

Delays we encounter in the execution of our integration and cost reduction plans could have a material adverse effect on our revenues, expenses, operating results and financial condition. Although we expect significant benefits to result from the merger, there can be no assurance that we will actually realize these anticipated benefits.

Achieving the benefits of the merger will depend in part upon meeting the challenges inherent in the successful combination and integration of global business enterprises of the size and scope of historical Alcatel and Lucent and the possible resulting diversion of management attention for an extended period of time. There can be no assurance that we will meet these challenges and that such diversion will not negatively affect our operations.

Uncertainties associated with our integration and cost-reduction plans may cause a loss of employees and may otherwise materially adversely affect our future business and operations.

Our success depends in part upon our ability to retain our key employees. Competition for qualified personnel can be intense. Our current and prospective employees may continue to experience uncertainty about their roles with us as we work through our integration and cost reduction plans. This may materially adversely affect our ability to attract and retain key management, sales, marketing, technical and other personnel. Accordingly, no assurance can be given that we will be able to attract or retain our key employees to the same extent that we have been able to attract or retain our employees in the past.

Technological innovation is important to our success and depends, to a significant degree, on the work of technically skilled employees. Competition for the services of these types of employees is vigorous. We cannot provide assurance that we will be able to attract and retain these employees in the future. If we are unable to attract and retain technically skilled employees, our competitive position could be materially adversely affected.

We operate in a highly competitive industry with many participants. Our failure to compete effectively would harm our business.

We operate in a highly competitive environment in each of our businesses, competing on the basis of product offerings, technical capabilities, quality, service and pricing. Competition for new service providers and enterprise customers as well as for new infrastructure deployments is particularly intense and increasingly focused on price. We offer customers and prospective customers many benefits in addition to competitive pricing, including strong support and integrated services for quality, technologically-advanced products; however, in some situations, we may not be able to compete effectively if purchasing decisions are based solely on the lowest price.

We have a number of competitors, many of which currently compete with us and some of which are very large, with substantial technological and financial resources and established relationships with global service providers. Some of these competitors have very low cost structures, support from governments in their home countries, or both. In addition, new competitors may enter the industry as a result of shifts in technology. These new competitors, as well as existing competitors, may include entrants from the telecommunications, computer software, computer services, data networking and semiconductor industries. We cannot assure you that we will be able to compete successfully with these companies. Competitors may be able to offer lower prices, additional products or services or a more attractive mix of products or services, or services or other incentives that we cannot or will not match or offer. These competitors may be in a stronger position to respond quickly to new or emerging technologies and may be able to undertake more extensive marketing campaigns, adopt more aggressive pricing policies and make more attractive offers to customers, prospective customers, employees and strategic partners.

Technology drives our products and services. If we fail to keep pace with technological advances in the industry, or if we pursue technologies that do not become commercially accepted, customers may not buy our products or use our services.

The telecommunications industry uses numerous and varied technologies and large service providers often invest in several and, sometimes, incompatible technologies. The industry also demands frequent and, at times, significant technology upgrades. Furthermore, enhancing our services revenues requires that we develop and maintain leading tools. We will not have the resources to invest in all of these existing and potential technologies. As a result, we will concentrate our resources on those technologies that we believe have or will achieve substantial customer acceptance and in which we will have appropriate technical expertise. However, existing products often have short product life cycles characterized by declining prices over their lives. In addition, our choices for developing technologies may prove incorrect if customers do not adopt the products that we develop or if those technologies ultimately prove to be unviable. Our revenues and operating results will depend to a significant extent on our ability to maintain a product portfolio and service capability that is attractive to our customers, to enhance our existing products, to continue to introduce new products successfully and on a timely basis and to develop new or enhance existing tools for our services offerings.

A small number of our customers account for a substantial portion of our revenues, and most of our revenues come from telecommunications service providers. The loss of one or more key customers or reduced spending of these service providers could significantly reduce our revenues, profitability and cash flow.

A few large telecommunications service providers account for a substantial portion of our revenues. In addition, the telecommunications industry has recently experienced substantial consolidation, as evidenced by the mergers of Sprint and Nextel, Cingular and AT&T Wireless, SBC Communications and AT&T, Verizon and MCI, and AT&T and BellSouth. As service providers increase in size, it is possible that an even greater portion of our revenues will be attributable to a smaller number of large service providers going forward. We may also lose business from customers for which historical Alcatel and Lucent were the two main suppliers, if these customers choose another supplier in order to avoid having us as their sole source for a product or service. In addition, our existing customers are typically not obligated to purchase a certain amount of products or services over any period of time from us and may have the right to reduce, delay or even cancel previous orders. We, therefore, will have difficulty projecting future revenues from existing customers with certainty. Although historically our customers have not made sudden supplier changes, our customers could vary, as historical Alcatel's and Lucent's customers have varied their purchases from period to period, sometimes significantly. Combined with our reliance on a small number of large customers, this could have an adverse effect on our revenues, profitability and cash flow. In addition, our concentration of business in the telecommunications service provider industry will make us extremely vulnerable to downturns or slowdowns in spending in that industry.

The telecommunications industry fluctuates and is affected by many factors, including decisions by service providers regarding their deployment of technology and their timing of purchases, as well as demand and spending for communications services by businesses and consumers.

After significant deterioration earlier this decade, the global telecommunications industry stabilized in 2004 and experienced modest growth in 2005 and 2006, as reflected in increased capital expenditures by service providers and growing demand for telecommunications services. Although we believe the overall industry will continue to grow, the rate of growth could vary geographically and across different technologies, and is subject to substantial fluctuations. The specific industry segments in which we participate may not experience the growth of other segments. In that case, the results of our operations may be adversely affected.

If capital investment by service providers grows at a slower pace than anticipated, our revenues and profitability may be adversely affected. The level of demand by service providers can change quickly and can vary over short periods of time, including from month to month. As a result of the uncertainty and variations in the telecommunications industry, accurately forecasting revenues, results and cash flow remains difficult.

In addition, our sales volume and product mix will affect our gross margin. Therefore, if reduced demand for our products results in lower than expected sales volume, or if we have an unfavorable product mix, we may not achieve the expected gross margin rate, resulting in lower than expected profitability. These factors may fluctuate from quarter to quarter.

We have long-term sales agreements with a number of our customers. Some of these agreements may prove unprofitable as our costs and product mix shift over the lives of the agreements.

Historical Alcatel and Lucent each entered into long-term sales agreements with a number of their respective large customers, and we expect that we will continue to enter into long-term sales agreements in the future. Some of these existing sales agreements require us to sell products and services at fixed prices over the lives of the agreements, and some require, or may in the future require, us to sell products and services that we would otherwise discontinue, thereby diverting our resources from developing more profitable or strategically important products. The costs incurred in fulfilling some of these sales agreements may vary substantially from the initial cost estimates of historical Alcatel, Lucent or the combined company. Any cost overruns that cannot be passed on to customers could adversely affect our results of operations.

Lucent's pension and post-retirement benefit plans are large and have funding requirements that fluctuate based on the performance of the financial markets and the level of interest rates and may be affected by changes in legal requirements. These plans are also costly, and our efforts to fund or control those costs may be ineffective.

Among other compensation and benefit programs, many former and current employees and retirees of Lucent in the U.S. participate in one or more of the following benefit plans:

- management pension plan;
- occupational pension plans;
- post-retirement health care benefit plan for former management employees; and/or
- post-retirement health care benefit plan for formerly represented employees.

The performance of the financial markets, especially the equity markets, and the level of interest rates impact the funding obligations for Lucent's pension plans.

Lucent's U.S. pension plans meet the requirements of ERISA's current funding requirements, and we do not expect Lucent to make any contributions to its qualified U.S. pension plans through 2008. We are unable to provide an estimate of future funding requirements beyond fiscal 2008 for the Lucent pension plans. However, based on actuarial projections obtained by Lucent, we believe that it is unlikely that any required contributions would have a material adverse effect on our liquidity during fiscal 2009 through fiscal 2011.

Recent legislative changes, in the form of the Pension Protection Act of 2006 (the "PPA"), impact the funding requirements for Lucent's U.S. pension plans. The PPA alters the manner in which liabilities and asset values are determined for the purpose of calculating required pension contributions and the timing and manner in which required contributions to under-funded pension plans would be made. These changes could significantly increase the funding requirements for Lucent's U.S. management pension plan and reduce excess pension assets that could be available to fund retiree health care benefits for Lucent's formerly represented employees. Accordingly, the amounts we might contribute to these benefit plans are subject to considerable uncertainty.

The fair market value of assets held in Lucent's U.S. pension trusts was approximately U.S.\$35.4 billion as of December 31, 2006.

The PPA also provides for what is called a "collectively bargained" transfer under Section 420 of the Internal Revenue Code, which we refer to as the Code, under which pension assets in excess of 120% of pension plan funding obligations would be available to fund health care costs for Lucent's formerly represented retirees. Together with Lucent's unions, Lucent is pursuing additional changes to Section 420 as technical corrections, which would facilitate Lucent's ability to provide a collectively bargained level of retiree health care benefits by using such excess pension assets. With the adoption of the technical corrections that Lucent is proposing, we believe it is likely that almost all of the healthcare funding required for Lucent's formerly represented retirees (assuming the present level and structure of benefits) could be addressed through Section 420 transfers based on current actuarial assumptions. However, no assurances can be given that Lucent will be successful in its efforts to obtain these additional changes. Lucent has amended its collective bargaining agreement to extend to June 30, 2007, the time period within which the additional changes Lucent is seeking to the PPA must be obtained. If, by that date, the legislation imposes constraints that would significantly impair Lucent's ability to fund retiree health care costs using excess pension assets, Lucent would have the ability, at its sole discretion beginning on January 1, 2008, to adjust the level of subsidy it provides for health care to its formerly represented retirees.

As of the January 1, 2007 valuation date, there were approximately €1.6 billion of pension plan assets that would be eligible for "collectively bargained" transfers to fund retiree health care costs for Lucent's formerly represented retirees. Under a conventional Section 420 transfer, pension assets in excess of 125% of pension plan obligations would be available for retiree health care funding; as of the same valuation date €1.2 billion would be available for such conventional transfers. Lucent made a "collectively bargained" transfer of U.S.\$504 million in December 2006. This transfer covers formerly represented retiree health care costs from October 2006 through December 2007, including U.S.\$50 million in contributions to a Taft-Hartley trust for 2006 and 2007, as required by Lucent's amended collective bargaining agreement.

Lucent has also taken some steps, and we expect to take additional actions over time, to reduce the overall cost of Lucent's U.S. retiree health care benefit plans and the share of these costs borne by us, consistent with legal requirements and Lucent's collective bargaining obligations. However, the rate of cost increases may exceed our actions to reduce these costs. In addition, the reduction or elimination of retiree health care benefits by Lucent and Alcatel USA has led to lawsuits against them. Any other initiatives that we undertake to control or reduce costs may lead to additional claims against us.

Many of our current and planned products are highly complex and may contain defects or errors that are detected only after deployment in telecommunications networks. If that occurs, our reputation may be harmed.

Our products are highly complex, and there is no assurance that our extensive product development, manufacturing and integration testing is, or will be, adequate to detect all defects, errors, failures and quality issues that could affect customer satisfaction or result in claims against us. As a result, we might have to replace certain components and/or provide remediation in response to the discovery of defects in products that have been shipped.

Most of these occurrences can be rectified without incident, as has generally been the case for each of Alcatel and Lucent historically. However, the occurrence of any defects, errors, failures or quality issues could result in cancellation of orders, product returns, diversion of our resources, legal actions by customers or customers' end users and other losses to us or to our customers or end users. These occurrences could also result in the loss of or delay in market acceptance of our products and loss of sales, which would harm our business and adversely affect our revenues and profitability.

Rapid changes to existing regulations or technical standards or the implementation of new ones for products and services not previously regulated could be disruptive, time-consuming and costly to us.

We develop many of our products and services based on existing regulations and technical standards, our interpretation of unfinished technical standards or the lack of such regulations and standards. Changes to existing regulations and technical standards, or the implementation of new regulations and technical standards relating to products and services not previously regulated, could adversely affect our development efforts by increasing compliance costs and causing delay. Demand for those products and services could also decline.

We are involved in lawsuits and investigations, which, if determined against us, could require us to pay substantial damages, fines and/or penalties.

We are defendants in various lawsuits. These lawsuits against us include such matters as commercial disputes, claims regarding intellectual property, customer financing, product discontinuance, asbestos claims, labor, employment and benefit claims, shareholders' litigation and others. We are also involved in certain investigations by government authorities. For a discussion of some of these legal proceedings and investigations, you should read "Legal Matters" in Item 8 of this annual report and Note 34 to our consolidated financial statements included elsewhere in this annual report. We cannot predict the extent to which any of the pending or future actions will be resolved in our favor, or whether significant monetary judgments will be rendered against us. Any material losses resulting from these claims could adversely affect our profitability and cash flow.

If we fail to protect our intellectual property rights, our business and prospects may be harmed.

Intellectual property rights, such as patents, are vital to our business and developing new products and technologies that are unique is critical to our success. We have numerous U.S. and foreign patents and numerous pending patents. However, we cannot predict whether any patents, issued or pending, will provide us with any competitive advantage or whether such patents will be challenged by third parties. Moreover, our competitors may already have applied for patents that, once issued, could prevail over our patent rights or otherwise limit our ability to sell our products. Our competitors also may attempt to design around our patents or copy or otherwise obtain and use our proprietary technology. In addition, patent applications currently pending may not be granted. If we do not receive the patents that we seek or if other problems arise with our intellectual property, our competitiveness could be significantly impaired, which would limit our future revenues and harm our prospects.

We are subject to intellectual property litigation and infringement claims, which could cause us to incur significant expenses or prevent us from selling certain products.

From time to time, we receive notices or claims from third parties of potential infringement in connection with products or services. We also may receive such notices or claims when we attempt to license our intellectual property to others. Intellectual property litigation can be costly and time-consuming and can divert the attention of management and key personnel from other business issues. The complexity of the technology involved and the uncertainty of intellectual property litigation increase these risks. A successful claim by a third party of patent or other intellectual property infringement by us could compel us to enter into costly royalty or license agreements or force us to pay significant damages and could even require us to stop selling certain products. Further, if one of our important patents or other intellectual property rights is invalidated, we may suffer losses of licensing revenues and be prevented from attempting to block others, including competitors, from using the related technology.

We are subject to environmental, health and safety laws that restrict our operations.

Our operations are subject to a wide range of environmental, health and safety laws, including laws relating to the use, disposal and clean-up of, and human exposure to, hazardous substances. In the United States, these laws often require parties to fund remedial action regardless of fault. Although we believe our aggregate reserves are adequate to cover our environmental liabilities, factors such as the discovery of additional contaminants, the extent of required remediation and the imposition of additional cleanup obligations could cause our capital expenditures and other expenses relating to remediation activities to exceed the amount reflected in our environmental reserves and adversely affect our results of operations and cash flows. Compliance with existing or future environmental, health and safety laws could subject us to future liabilities, cause the suspension of production, restrict our ability to utilize facilities or require us to acquire costly pollution control equipment or incur other significant expenses.

Our business requires a significant amount of cash, and we may require additional sources of funds if our sources of liquidity are unavailable or insufficient to fund our operations.

The working capital requirements and cash flows of historical Alcatel and Lucent have historically been, and our working capital requirements and cash flows are expected to continue to be, subject to quarterly and yearly fluctuations, depending on a number of factors. If we are unable to manage fluctuations in cash flow, our business, operating results and financial condition may be materially adversely affected. Factors which could lead us to suffer cash flow fluctuations include:

- the level of sales;
- the collection of receivables;
- the timing and size of capital expenditures;
- costs associated with potential restructuring actions; and
- customer financing obligations.

In order to finance our business, we expect to use available cash and investments and to continue to have access to a syndicated credit facility allowing for the drawdown of significant levels of debt if required. However, we expect that the ability to draw on this facility will be conditioned upon our compliance with financial covenants. There can be no assurance that we will be in compliance with the financial covenants required by our lenders at all times in the future.

We may need to secure additional sources of funding if our cash, syndicated credit facility and borrowings are not available or are insufficient to finance our business. We cannot provide any assurance that such funding will be available on terms satisfactory to us. If we were to incur high levels of debt, this would require a larger portion of our operating cash flow to be used to pay principal and interest on our indebtedness. The increased use of cash to pay indebtedness could leave us with insufficient funds to finance our operating activities, such as research and development expenses and capital expenditures, which could have a material adverse effect on our business.

Our current short-term debt rating allows us limited access to the commercial paper market. Our ability to have access to the capital markets and our financing costs will be, in part, dependent on Standard & Poor's, Moody's or similar agencies' ratings with respect to our debt and corporate credit and their outlook with respect to our business. Our current short-term and long-term credit ratings, as well as any possible future lowering of our ratings, may result in higher financing costs and reduced access to the capital markets. We cannot provide any assurance that our credit ratings will be sufficient to give us access to the capital markets on acceptable terms, or that once obtained, such credit ratings will not be reduced by Standard & Poor's, Moody's or similar rating agencies.

Credit and commercial risks and exposures could increase if the financial condition of our customers declines.

A substantial portion of our sales are to customers in the telecommunications industry. These customers may require their suppliers to provide extended payment terms, direct loans or other forms of financial support as a condition to obtaining commercial contracts. We expect that we may provide or commit to financing where appropriate for our business. Our ability to arrange or provide financing for our customers will depend on a number of factors, including our credit rating, our level of available credit, and our ability to sell off commitments on acceptable terms.

More generally, we expect to routinely enter into long-term contracts involving significant amounts to be paid by our customers over time. Pursuant to these contracts, we may deliver products and services representing an important portion of the contract price before receiving any significant payment from the customer.

As a result of the financing that may be provided to customers and our commercial risk exposure under long-term contracts, our business could be adversely affected if the financial condition of our customers erodes. Over the past few years, certain of our customers have filed with the courts seeking protection under the bankruptcy or reorganization laws of the applicable jurisdiction, or have experienced financial difficulties. Upon the financial failure of a customer, we may experience losses on credit extended and loans made to such customer, losses relating to our commercial risk exposure, and the loss of the customer's ongoing business. If customers fail to meet their obligations to us, we may experience reduced cash flows and losses in excess of reserves, which could materially adversely impact our results of operations and financial position.

We have significant international operations and a significant amount of our sales are made in emerging markets and regions.

In addition to the currency risks described elsewhere in this section, our international operations are subject to a variety of risks arising out of the economy, the political outlook and the language and cultural barriers in countries where we have operations or do business.

We expect to continue to focus on expanding business in emerging markets in Asia, Africa and Latin America. In many of these emerging markets, we may be faced with several risks that are more significant than in other countries. These risks include economies that may be dependent on only a few products and are therefore subject to significant fluctuations, weak legal systems which may affect our ability to enforce contractual rights, possible exchange controls, unstable governments, privatization actions or other government actions affecting the flow of goods and currency.

We are required to move products from one country to another and provide services in one country from a base in another. Accordingly, we are vulnerable to abrupt changes in customs and tax regimes that may have significant negative impacts on our financial condition and operating results.

Our financial condition and results of operations may be harmed if we do not successfully reduce market risks through the use of derivative financial instruments.

Since we conduct operations throughout the world, a substantial portion of our assets, liabilities, revenues and expenses are denominated in various currencies other than the euro and the U.S. dollar. Because our financial statements are denominated in euros, fluctuations in currency exchange rates, especially the U.S. dollar against the euro, could have a material impact on our reported results. We also experience other market risks, including changes in interest rates and in prices of marketable equity securities that we own. We may use derivative financial instruments to reduce certain of these risks. If our strategies to reduce market risks are not successful, our financial condition and operating results may be harmed.

We are involved in several significant joint ventures and are exposed to problems inherent to companies under joint management.

We are involved in several significant joint venture companies. The related joint venture agreements may require unanimous consent or the affirmative vote of a qualified majority of the shareholders to take certain actions, thereby possibly slowing down the decision-making process.

An impairment of goodwill or other intangible assets would adversely affect our financial condition or results of operations.

We have a significant amount of intangible assets including goodwill and other acquired intangibles, development costs for software to be sold, leased or otherwise marketed and internal use software development costs as of December 31, 2006. As a result of the merger transaction with Lucent, a significant amount of additional goodwill and other acquired intangible assets were recorded as a result of the purchase price allocation.

Goodwill and intangible assets with indefinite useful lives are not amortized but are tested for impairment annually, or more often, if an event or circumstance indicates that an impairment loss may have been incurred. Other intangible assets are amortized on a straight-line basis over their estimated useful lives and reviewed for impairment whenever events such as product discontinuances, plant closures, product dispositions or other changes in circumstances indicate that the carrying amount may be not be recoverable.

Historically, both Alcatel and Lucent have recognized significant impairment charges due to various reasons, including some of those noted above as well as potential restructuring actions or adverse market conditions that are either specific to the telecommunications industry or general in nature. Additional impairment charges may be incurred in the future that could be significant and that could have an adverse effect on our results of operations or financial condition.

Risks Relating to Ownership of our ADSs

The trading price of our ADSs may be affected by fluctuations in the exchange rate for converting euro into U.S. dollars.

Fluctuations in the exchange rate for converting euro into U.S. dollars may affect the market price of our ADSs.

If a holder of our ADSs fails to comply with the legal notification requirements upon reaching certain ownership thresholds under French law or our governing documents, the holder could be deprived of some or all of the holder's voting rights and be subject to a fine.

French law and our governing documents require any person who owns our outstanding shares or voting rights in excess of certain amounts specified in the law or our governing documents to file a report with us upon crossing this threshold percentage and, in certain circumstances, with the French stock exchange regulator (Autorité des marchés financiers). If any shareholder fails to comply with the notification requirements:

- the shares or voting rights in excess of the relevant notification threshold may be deprived of voting power on the demand of any shareholder;
- all or part of the shareholder's voting rights may be suspended for up to five years by the relevant French commercial court; and
- the shareholder may be subject to a fine.

Holders of our ADSs will have limited recourse if we or the depositary fail to meet obligations under the deposit agreement between us and the depositary.

The deposit agreement expressly limits our obligations and liability and the obligations and liability of the depositary. Neither we nor the depositary will be liable despite the fact that an ADS holder may have incurred losses if the depositary:

- is prevented or hindered in performing any obligation by circumstances beyond our control;
- exercises or fails to exercise discretion under the deposit agreement;
- performs its obligations without negligence or bad faith;
- takes any action based upon advice from legal counsel, accountants, any person presenting our ordinary shares for deposit, any holder or any other qualified person; or
- relies on any documents it believes in good faith to be genuine and properly executed.

This means that there could be instances where you would not be able to recover losses that you may have suffered by reason of our actions or inactions or the actions or inactions of the depositary pursuant to the deposit agreement. In addition, the depositary has no obligation to participate in any action, suit or other proceeding in respect of our ADSs unless we provide the depositary with indemnification that it determines to be satisfactory.

[Back to Contents](#)***We are subject to different corporate disclosure standards that may limit the information available to holders of our ADSs.***

As a foreign private issuer, we are not required to comply with the notice and disclosure requirements under the Securities Exchange Act of 1934, as amended, relating to the solicitation of proxies for shareholder meetings. Although we are subject to the periodic reporting requirements of the Exchange Act, the periodic disclosure required of non-U.S. issuers under the Exchange Act is more limited than the periodic disclosure required of U.S. issuers. Therefore, there may be less publicly available information about us than is regularly published by or about most other public companies in the United States.

Judgments of U.S. courts, including those predicated on the civil liability provisions of the federal securities laws of the United States in French courts, may not be enforceable against us.

An investor in the United States may find it difficult to:

- effect service of process within the United States against us and our non-U.S. resident directors and officers;
- enforce U.S. court judgments based upon the civil liability provisions of the U.S. federal securities laws against us and our non-U.S. resident directors and officers in both the United States and France; and
- bring an original action in a French court to enforce liabilities based upon the U.S. federal securities laws against us and our non-U.S. resident directors and officers.

Preemptive rights may not be available for U.S. persons.

Under French law, shareholders have preemptive rights to subscribe for cash issuances of new shares or other securities giving rights to acquire additional shares on a pro rata basis. U.S. holders of our ADSs or ordinary shares may not be able to exercise preemptive rights for their shares unless a registration statement under the Securities Act of 1933 is effective with respect to such rights or an exemption from the registration requirements imposed by the Securities Act is available. We may, from time to time, issue new shares or other securities giving rights to acquire additional shares at a time when no registration statement is in effect and no Securities Act exemption is available. If so, U.S. holders of our ADSs or ordinary shares will be unable to exercise their preemptive rights.

Item 4. Information on the Company

History and development

We provide solutions that enable service providers, enterprises and governments worldwide, to deliver voice, data and video communication services to end-users. As a leader in fixed, mobile and converged broadband access, carrier and enterprise IP technologies, applications, and services, we offer the end-to-end solutions that enable communications services for residential, business and mobile customers. With operations in more than 130 countries, we are a local partner with global reach. Our company has the most experienced global services teams in the industry, and one of the largest technology and innovation organizations in the telecommunications industry.

Alcatel-Lucent is a French *société anonyme*, established in 1898, originally as a publicly owned company. Our corporate existence will continue until June 30, 2086, which date may be extended by shareholder vote. We are subject to all laws governing business corporations in France, specifically the provisions of the commercial code, the financial and monetary code and decree No. 67-236 of March 23, 1967, as amended to date. On November 30, 2006, in connection with the business combination with Lucent Technologies, Inc., we changed our name from Alcatel to Alcatel Lucent.

Our registered office and principal place of business is 54, rue La Boétie, 75008 Paris, France, our telephone number is 33 (1) 40 76 10 10 and our website address is www.alcatel-lucent.com. The contents of our website are not incorporated into this Form 20-F. The address for Stephen R. Reynolds, our authorized representative in the United States, is Lucent Technologies, Inc., 600 Mountain Avenue, Murray Hill, New Jersey 07974.

Overview and Outlook

The telecommunications equipment market continued to grow in 2006 as operators continued to invest in their broadband access capabilities and in their portfolio of voice and data services offerings, and as they added capacity to their networks. In the wireline market, carrier spending remained focused on the transformation of networks to Internet Protocol (also referred to as IP) architecture and the ability to offer end users a "triple play" combination of voice, data and video services over upgraded access networks. In the wireless market, carrier spending was driven by continued subscriber growth, which was particularly strong in emerging countries, and by operators' desire to offer new and improved services to their customers. However, this market was adversely impacted by increased competition and pricing pressure.